

Town of Bedford Finance Committee

Town Hall, Selectmen's Meeting Room

September 15, 2016

Members in attendance: Rich Bowen, Tom Busa, Steve Carluccio, Karen Dunn, Elizabeth McClung, Paul Mortenson, David Powell, Steven Steele (Chair), Ben Thomas.

Others in attendance: Victor Garofalo, Town Treasurer/ Finance Director; Bill Moonan, Selectman; Kim Siebert, Recording Secretary.

Minutes

Mr. Powell moved to approve the minutes of September 1, 2016 as amended. Ms. McClung seconded. The motion passed, 6-0-3.

Mr. Thomas moved to approve the minutes of June 16, 2016 as written. Ms. McClung seconded. The motion was passed 6-0-3.

Model 1.0

For the benefit of those unable to attend the September 1 meeting, and to further the discussion about what to do with surplus funds, Model 1.0 was once again reviewed.

Following up from the previous meeting, Mr. Garofalo reported that he contacted the Assessors' office to see if the New Growth number could be updated. Associate Assessor Alan Ferguson told him that the Assessors want to leave the number as it stands at \$1.1M until New Growth is certified by the Department of Revenue in late November, after STM.

Mr. Busa asked if FinCom is compelled to use this number, given that actual New Growth will almost certainly be higher and FinCom strives to use accurate numbers to develop a "realistic model". Mr. Thomas said FinCom should invite the Assessors to discuss the matter. Mr. Bowen said that last year's \$1.6M New Growth included the anomaly of a Personal Property jump from a single source that will not be repeated.

Mr. Busa said the Assessors' New Growth estimates have been off by 50%-100% in recent years. Reviewing the historical ups and downs in New Growth and comparing estimates to actuals, the Committee confirmed Assessors' estimates have been off 100% for three years.

Mr. Garofalo said the basic question at hand is how large budget Surpluses created by New Growth should be used. "We've never been in a situation where we've had an Unused Levy amount as high as it is now and not known what the final New Growth number's going to be. What it's going to do is boost Unused Levy. New Growth becomes more of an issue if you're trying to balance the books... and all of a sudden here comes this money we could have used. In this case it's not affecting anyone's budget."

After additional discussion about the relationship of past New Growth estimates to past New Growth actuals, the Committee agree that Mr. Bowen, as liaison, would call the Assessors to that they come to the next meeting. However, Mr. Bowen asked what the need is, in this situation, to pin down the number. Mr. Thomas responded that he wanted to have accurate numbers for the

budget mode, whatever the case. Mr. Bowen pointed out that there are certain things that will remain unknown for some time, such as Hanscom student reimbursement funding.

Ms. McClung said the tax rate is set by the time the New Growth figure is known. Mr. Garofalo agreed but added that tax rates for the first and second quarters are estimated and the third and fourth quarters are adjusted after the New Growth figure is certified.

Mr. Garofalo said the Department of Revenue recommends estimating New Growth conservatively. On occasion, the DOR has been known to reduce the Assessors' number, which—in any case—is subject to DOR certification.

Mr. Busa said he wants to confirm a higher New Growth figure because he wants the highest override number possible. But, in the short term, he agreed that the Assessors should explain why their numbers have not been accurate.

Mr. Mortenson said the criticism seemed unfair, given the DOR directive to estimate conservatively. Mr. Thomas said he appreciated the concept of having flexibility within the budget but he believes accuracy is a best practice that prevents problems. Mr. Garofalo added that the Assessors should also be able to give an update on the status of Overlay cases.

Mr. Carluccio asked what numbers form the foundation of a new year's budget. Mr. Garofalo replied that the new base = the previous year's base + 2.5 % + New Growth. In lean times, having an accurate New Growth figure means less belt tightening.

Mr. Powell said it seemed like the year was advanced enough that the Assessors should be able to reasonably calculate an accurate New Growth figure. Mr. Garofalo agreed, saying that New Growth is based on values that are set up until July 1; anything that happens after July 1 is part of the following year's New Growth.

Moving on through the budget model to the water and sewer categories, Mr. Thomas asked that the DPW also be invited to the next meeting to talk about municipal use of water.

Finally, the review returned to baseline figures on page 1 of Model 1.0:

- Amount of Unused Levy to be left = \$ 2,175, 745
- Unused Levy = \$2,987, 950
- Budget Surplus= \$812, 205

Mr. Garofalo said the currently-known Surplus of \$812,205 could be left as Surplus, added to Stabilization, or placed in Unused Levy or OPEB. He added there would be no other changes to Model 1.0 before STM unless funds these categories were moved. "No budgets are looking for any additional money, no additional money for Capital, no additional money for department budgets," Mr. Garofalo said.

Mr. Busa asked if the balances in reserve and stabilization funds align with the financial policies. Mr. Garofalo said that the Stabilization policy was 2-6% and the actual is within the guideline at 4.6%. Unused Levy capacity is on target and Debt is below the 10% cap at 8.61%. Some approved projects have not yet been bonded but the additional percentage would register in the next fiscal year. With these known projects—Schools, communication study, athletic field and

water projects—the debt ratio will go up to 8.85%.

Discussion of Unused Levy Capacity, Reserves and Free Cash

Mr. Garofalo asked the Committee to consider what it wants to do with the Surplus, adding that his forecast says there are will potentially be even higher surpluses at the end of FY16 that will effect FY18.

In response to a question from Mr. Bowen, Mr. Garofalo confirmed there will be an OPEB audit this year and that he's already started the process and hired the Actuary. The upcoming review will be the third of its kind. Mr. Busa said OPEB review was part of the original plan when the fund was established. Mr. Steele said he would be unwilling to make changes to the OPEB account without reviewing the results of a new actuarial study.

Mr. Busa said that taxpayers now are being “doubletaxed” because, in the past, post-retirement health care costs were not put aside during employment. The Town is now obligated to fund liabilities for both retired personnel and current personnel who will be future retirees. Retired employee benefits costs the Town \$1.4M annually and taxpayers put aside \$550,000 annually to fund current employees' retirement insurance. When the fund was first started 7 years ago, the future cost of current employees was \$2M a year. That amount has since dropped due to participation the State insurance pool, among other factors.

Because of the complexity of the issue and the need to understand OPEB historically, Mr. Mortenson asked for time at a future meeting for a tutorial. Information from the most recent OPEB review is in the DropBox but Mr. Powell pointed out that newer FinCom members—and the conversation about surplus funds— would benefit from having a better understanding.

Rather than merely making a decision about this year's Surplus, Thomas said a policy should be written about Surplus funds. “We've had great success with this policy document that we have. Everyone plays by those rules. I'm suggesting that we come up with what we want to do about Unused Levy capacity and put it the policy document.”

Mr. Carluccio said that perhaps the funds should be used to pay taxpayers back for the years that the Unused Levy was less than the Mitre PILOT. Mr. Thomas said, for instance, that a policy might say that half of any year's surplus should go into Unused Levy. Mr. Garofalo said that 2023 is the last year of the current Mitre agreement; it might be renewed or it might disappear. Mr. Busa said he would vote to keep the Unused Levy the same as the Mitre payment and give the rest of the money back to the town. “I don't care if you cut checks and mail them out.”

Mr. Powell clarified his understanding of current policies on Free Cash and added, “We also talked about a policy of approaching the budget process in a less conservative way that would impact the diminution of Free Cash. People are saying we have too much Free Cash and one of the ways to have less in the future is to not always pick the conservative end of every single budget item. That may not be a policy as much as a philosophy.”

Mr. Busa said the past few years have seen attempts to be more accurate as opposed to more conservative but the result has nonetheless been more Free Cash than anticipated.

Mr. Garofalo said some of the additional Free Cash is due to anomalies. Mr. Thomas replied that

a policy would provide a plan for these anomalies. Mr. Garofalo said that leaving 1% of Free Cash as Free Cash—as suggested— might be a high number, depending on the year. He suggested instead establishing a range, based on the total amount. Mr. Thomas said he'd prefer to see a pattern before he makes a changes in a policy.

Mr. Bowen suggested leaving 1% in Free Cash and putting the rest into Unused Levy, since the other funds and reserves are at target levels. Several members liked this approach, including Mr. Busa who said he would still prefer an override. Mr. Carluccio suggested that a year in which Personal Growth experienced a windfall, there could be an override for the windfall amount. Mr. Thomas said if there are several years with surpluses, the argument would be stronger for an override.

Mr. Powell asked, given the complex process by which an override would be passed, if this is something that could actually be written as policy. If the same result can be achieved by keeping Surpluses as Unused Levy, it seemed less practical to go through the override process.

Ms. McClung said that the Mitre PILOT could be the Unused Tax Levy base number and any Surplus could be added to that until it reached a certain point was reached that would trigger an override.

Mr. Busa said, in his opinion, there should be a policy that says Unused Levy should never go below what was “left on the table” the year before. “If we have bad year, we can vote to change it,” he added. Mr. Thomas said this idea was clear and policy-worthy. Mr. Carluccio cautioned that things change and he feels uncomfortable creating such a guideline. Mr. Thomas said, in his opinion, policies help the Town stick to its goals.

Ms. McClung said one solution would be that FinCom could recommend a tax increase of less than the taxes maximum allowed.

Selectman Moonan asked FinCom to consider what it is trying to achieve. “Are you trying to reduce taxes? Are you trying to use Free Cash as a shock absorber in the system? State an end goal so you can make a policy to achieve it.” Mr. Thomas said the end goal is to manage the Unused Tax Levy in a rational fashion, year after year, so that the Town doesn't raise taxes just because it has the ability and so that surplus cash isn't always seen as a target.

“If a need arose, there's no reason why we wouldn't change the policy. The policy is a guideline. It raises the bar,” Mr. Steele said. Mr. Busa agreed, saying, “It's another reserve.”

Mr. Busa said a policy should state that Unused Levy capacity doesn't decrease from the previous year's end amount. Mr. Mortenson, although he agreed that a policy should be written, said he'd like to see some examples of how it would work. Ms. Dunn said she is in favor of a policy and wants the concept of an override to remain on the table.

Mr. Steele asked if the Committee would consider using FY18 as a test year for any new proposed policy.

Mr. Bowen said that many budget items will affect Unused Levy, causing it to move around “uncontrollably”. “We want to keep spending moving in line with inflation and need.” Mr.

Moonan agreed that spending should be controlled, saying he's concerned about the Bedford taxpayer, 25% of whom are 65+.

Mr. Steele asked members to send him their thoughts. He will write a first draft of a policy and submit it for comment.

Mr. Powell asked if the goal should be ready to be applied at STM. Mr. Garofalo clarified that things could be left as they are for STM and whatever else comes in would fall to Unused Levy capacity. Or, he said, FinCom could apply funds to OPEB and Stabilization. Mr. Garofalo calculated that another \$200,000 in Stabilization would put it at 5%, still in the policy range but closer to the 6% cap. Mr. Busa said that getting to 5% was not compelling.

Old Business

Members asked Mr. Moonan to work with the Selectmen on the matter of returning the grant fund amount for the new local transportation program to the Town. The return of funds (\$45,000) would require approval of Town Meeting.

New Business

Mr. Carluccio noted that this year is a teacher contract negotiation year.

Meetings attended

Mr. Thomas reported that the Town recently came in on budget for a vehicle purchase and the new transportation DASH system rates were set to be on par with the BLT. Adult rider fares are \$4.00 each way out of town and \$2.00 each way in town. Children's fares are half the adult rate and minor riders must have a permission slip from parents/guardians. Mr. Thomas added he believes the marketing strategy for the new service has been well thought out.

Mr. Powell said that Planning will have four zoning amendment bylaw articles at STM, mostly of a minor nature.

Also, Selectmen will award the contract for the Great Road Business District Plan consultant at their next meeting. To inform the Great Road effort, Planning wants to form an advisory group of committee/board members and at large stakeholders, just as it did for the recent Comprehensive Plan process. FinCom is one of the stakeholders identified, however Mr. Powell had a conversation with new Planning Director Tony Fields about FinCom playing the lesser role of "interested party." FinCom should consider what level of participation seems best and who should represent the Committee.

In anticipation of a state-wide vote on recreational marijuana, the Selectmen have asked Planning to create zoning proposals about marijuana dispensaries so that when a one-year moratorium on medical marijuana elapses, there is clarity about where such a business could locate.

Mr. Steele said the Schools have reported "a sticky situation": A newly constructed house on the Bedford /Billerica line has a Bedford street address but the majority of the property is in Billerica. The developer received permission from the Superintendent's office to market the property as one that would send its children to Bedford Schools. The School Committee was not advised at the time and the question was hotly debated after the fact. Attempts to work with the

Town of Billerica failed and Town Counsel, citing two conflicting prior decisions, provided what were seen as unsatisfactory options. The School Committee finally voted 3-2 to allow the children at that address to attend Bedford Schools.

Adjournment

Mr. Busa made a motion to adjourn the meeting. Mr. Mortenson seconded. The motion passed, 9-0-0.

Respectfully submitted,

Kim Siebert,
Recording Secretary.